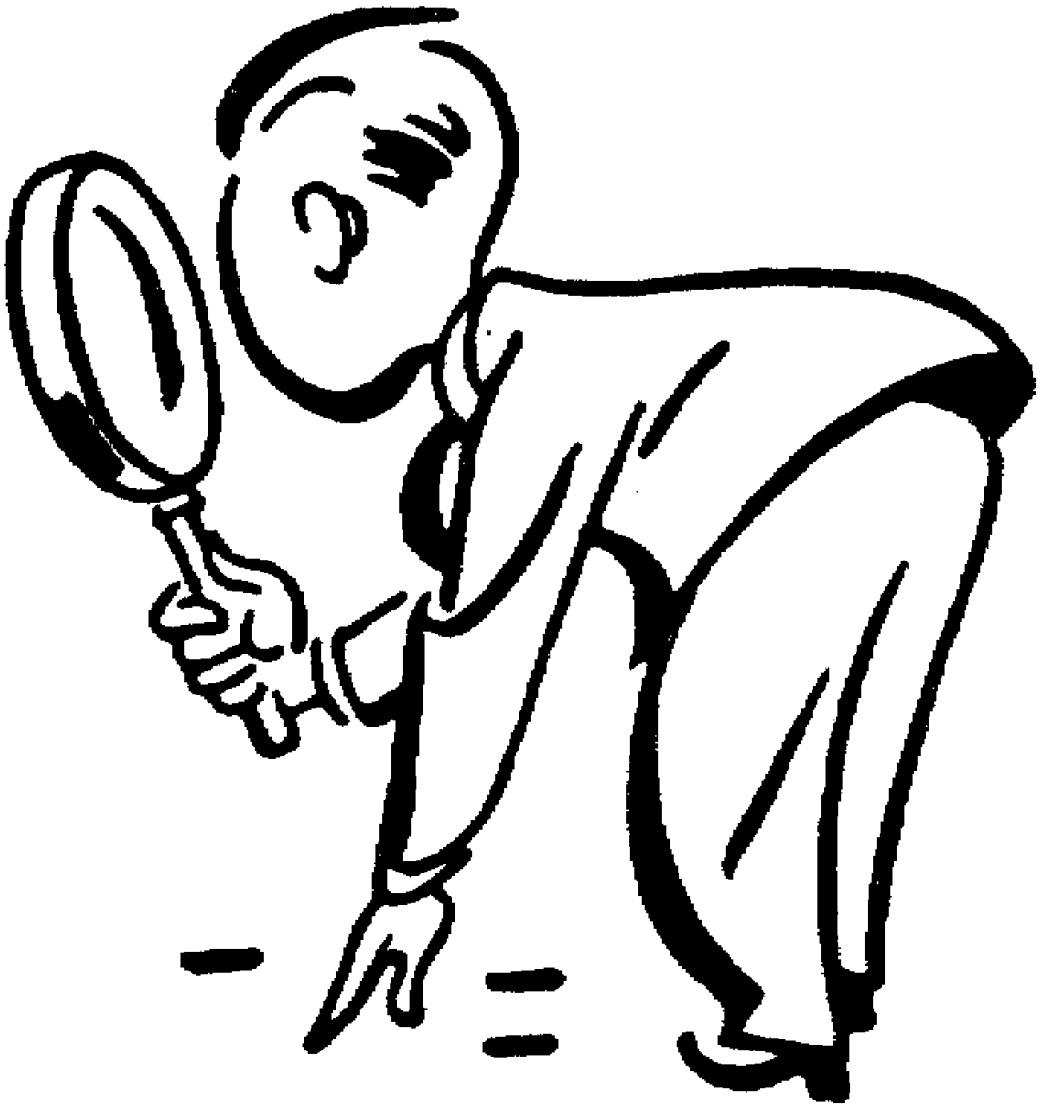
Chapter 16
Intellectual Property



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CHAPTER 16

INTELLECTUAL PROPERTY

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CHAPTER 16

INTELLECTUAL PROPERTY

I. REFERENCES

A. 10 U.S.C. §§ 2320-2321, Rights in Technical Data and Validation of Proprietary Data Restrictions.

B. Title 15, Chapter 22, United States Code, Trademarks.

C. Title 17, United States Code, Copyrights.

D. Title 35, United States Code, Patents.

E. 41 U.S.C. §§ 2302, 4703, Rights in Technical Data and Validation of Proprietary Data Restrictions.

F. Federal Acquisition Regulation (FAR), Part 27, Patents, Data, and Copyrights.

G. Department of Defense FAR Supplement (DFARS), Part 227, Patents, Data, and Copyrights.

H. Department of Defense, Intellectual Property: Navigating Through Commercial Waters (Version 1.1, Oct. 15, 2001), *available at* http://www.acq.osd.mil/dpap/docs/intelprop.pdf.

I. DoD Open Systems Architecture Contract Guidebook for Program Managers (Version 1.1, June 2013), *available at* https://acc.dau.mil/adl/en-US/664093/file/73330/OSAGuidebook%20v%201_1%20final.pdf.

J. Ralph C. Nash, Jr. & Leonard Rawicz, *Intellectual Property in Government Contracts* (CCH 6th ed. 2008). A one-volume treatise.

K. Matthew S. Simchak & David A. Vogel, *Licensing Software and Technology to the U.S. Government: The Complete Guide to Rights to Intellectual Property in Prime Contracts and Subcontracts* (2000). A one-volume treatise (out of print).

L. Nguyen, Gomulkiewicz & Conway-Jones, *Intellectual Property, Software & Information Licensing: Law and Practice* (BNA 2006 & 2013 Cum. Supp.). A one-volume treatise.

II. OVERVIEW

A. Intellectual property ("IP") refers to creations of the mind. Despite the term property, IP is better characterized as a proprietary interest in intangibles. The term intellectual property is used in reference to, *inter alia*, inventions, literary and artistic works, symbols, names, images, and designs.

B. IP has value because international treaties, federal and state laws, and contracts (including licenses) recognize ownership interests therein and provide exclusive rights to the owners thereof.

C. The policies supporting the protection of IP are myriad and, at times, contrary to other important policies such as competition and the public good. These policies include, but are not limited to, the following: providing incentives to inventors/authors to encourage scientific and technological advances, innovation, and creativity; providing a *quid pro quo* between inventors/authors and the public; promoting consumer protection; and upholding the standard of commercial ethics.

D. From a contractor's perspective, IP is a valuable corporate asset that can be used to generate revenue, create a competitive advantage, create barriers to entry by competitors, and act as a deterrent to litigation.

E. The Government also needs to consider IP issues during the acquisition planning process to help promote competition, reduce lifecycle/O&M costs, and reduce reprocurement costs. *See* United States Government Accountability Office, *Defense Contracting: Early Attention in the Acquisition Process Needed to Enhance Competition* (GAO-14-395) (May 2014).

1. From a competition standpoint, IP considerations can dovetail with open systems and open architecture acquisition approaches. It is important to keep in mind, however, that full and open competition can (and probably should) be achieved without trying to "level the playing field" and nullify the competitive advantage that IP affords certain offerors. *See Mortara Instrument, Inc.*, B-272461, 96-2 CPD 212 (Oct. 18, 1996).

2. Fiscal considerations can be particularly important in a more austere environment, where federal agencies are routinely being asked to do more with less.

3. There are also those of the view that respecting and protecting IP rights fosters national security through its impact on the economy. *See* Reggie Ash, *Protecting Intellectual Property and the Nation's Economic Security*, Landslide, Vol. 6, No. 5 at 20-24 (May/June 2004).

III. TYPES OF INTELLECTUAL PROPERTY

A. Patents.[1]

1. Art. I, § 8, cl. 8 of the U.S. Constitution authorizes the patent system in order "[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their

[1] This outline reflects the amendments to the Patent Act made by the Leahy-Smith America Invents Act ("AIA") (Pub. L. No. 112-29). For information regarding pre-AIA patent law, please consult a version of this outline from 2012 or earlier.

respective writings and discoveries." Based upon this authority, Congress enacted the Patent Act of 1952, now codified as amended at Title 35, United States Code.

2. A patent is a written instrument issued by the U.S. Patent and Trademark Office (PTO), an agency of the Department of Commerce.

3. Types of patents:

   a. Plant (*e.g.*, a new variety of rose bush). *See* 35 U.S.C. §§ 161-164.

   b. Design (*e.g.*, a new ornamental/non-functional design for a piece of furniture). *See* 35 U.S.C. §§ 171-173.

   c. Utility. *See* 35 U.S.C. §§ 100-157. Can be a "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. § 101.

4. An issued patent bestows a government-granted monopoly to an inventor and grants the inventor the right to exclude all others from practicing the invention (*e.g.*, making, using, selling, or importing the invention or offering the invention for sale) for a period of 20 years from the date the patent application is filed. *See* 35 U.S.C. §§ 154, 271.

5. To receive the exclusive rights associated with a patent, the inventor must make an application to the PTO and submit to an examination process. As part of the process, the inventor must provide a sufficiently detailed written description of the invention. This written description, or "specification," must describe the invention in a manner that enables a person skilled in the art to practice the invention without undue experimentation. It must also disclose the subjective best mode of practicing the invention. *See* 35 U.S.C. § 112(a). Failure to disclose the best mode, however, is no longer a defense to a charge of infringement. *See* 35 U.S.C. § 282(b)(3)(A).

6. An invention is patentable if it is:

   a. Patent-eligible subject matter (*see* 35 U.S.C. § 101).

      (1) The Supreme Court has held that "anything under the sun that is made by man" qualifies as statutory subject matter. *Diamond v. Diehr*, 450 U.S. 175 (1981).

      (2) More recently, the Supreme Court has emphasized that the only exclusions from statutory subject matter are laws of nature, physical phenomena, and abstract ideas. *See Bilski v. Kappos*, 130 S. Ct. 3218 (2010).

(3) The test used to determine whether an invention is an abstract idea remains unsettled. *See CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir.) (*en banc*), *cert. granted*, 134 S. Ct. 734 (2013).[2] This issue most often arises where the invention sought to be patented is a method, and in particular a "business method." In these circumstances, the PTO will apply the so-called "machine-or-transformation" test set forth by the Federal Circuit in *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (*en banc*). The Supreme Court, however, has rejected the notion that the machine-or-transformation test is dispositive of patent eligibility. *See Bilski*, 130 S. Ct. at 3227.[3]

b. Useful (*see* 35 U.S.C. § 101). This is an exceptionally low hurdle. For most inventions, it requires little more than a single, credible, real-world use for the invention. The invention need not be marketable, work particularly well, or have industrial applicability in order to be useful.

c. Novel (*see* 35 U.S.C. § 102).

(1) Novelty requires that the invention be different than any single thing that came before.

(2) An invention is not novel if it was patented, described in a printed publication, in public use, on sale, or otherwise available to the public prior to the application for patent. *See* 35 U.S.C. § 102(a)(1). Subject to certain limitations (*see* 35 U.S.C. § 102(b)(2)), issued patents and published patent applications are deemed effective as prior art as of the date they were ***filed***, not the day they actually ***published***. *See* 35 U.S.C. § 102(a)(2).

(3) Most countries apply an "absolute novelty" standard, such that any of the acts described above are immediate and absolute bars to patentability. The United States, however, has a substantially unique exception to the absolute novelty standard allowing, under certain circumstances, a one-year grace period to file a patent application following a disclosure by the inventor or by one who obtained the

[2] Oral argument in *Alice Corp.* occurred on March 31, 2014. The Supreme Court's decision was not available at the time of printing.

[3] As a practical matter, the PTO continues to apply the machine-or-transformation test when examining patents. *See* Memorandum from Robert W. Bahr, Acting Associate Commissioner for Patent Examination Policy, to Patent Examining Corps; subject: Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of *Bilski v. Kappos* (July 27, 2010), *available at* http://www.uspto.gov/patents/law/exam/bilski_guidance_27jul2010.pdf.

disclosure from the inventor. *See* 35 U.S.C. § 102(b)(1). As noted above, additional exceptions limit the retroactive applicability of issued patents and published applications. *See* 35 U.S.C. § 102(b)(2).

d. Non-obvious (*see* 35 U.S.C. § 103). The obviousness analysis considers whether the invention is sufficiently different than the state of the art when viewed through the eyes of one of ordinary skill in the art. Certain objective evidence, such as commercial success or copying, can also be considered as part of the obviousness analysis. *See Graham v. John Deere Co.*, 383 U.S. 1 (1966).

B. Trade Secrets.

1. Trade secret protection is primarily a matter of state law. To protect trade secrets from misappropriation, the various states rely on some or all of the following sources:

a. State common law and/or statutes.

b. The Restatement (First) of Torts §§ 757-759.

c. The Uniform Trade Secrets Act.

d. The Restatement (Third) of Unfair Competition §§ 39-45.

2. Although trade secret protection lies with the states, there are some federal statutes that punish trade secret theft in limited circumstances. Two of these federal acts are better known than the others: The Economic Espionage Act, which makes it a crime to steal trade secrets, and The Prohibition on Disclosure of Confidential Information, which makes it a crime for a Federal Government employee to release confidential or proprietary information gained during the course of her employment. *See* 18 U.S.C. §§ 1831-1839 and 18 U.S.C. § 1905, respectively. Recent amendments to the Economic Espionage Act, contained in the Theft of Trade Secrets Clarification Act of 2012 and the Foreign and Economic Espionage Penalty Enhancement Act of 2012, have strengthened the federal protections for trade secrets.

a. The Theft of Trade Secrets Clarification Act of 2012 makes express coverage for trade secrets that are services. It also expands coverage to products and services "used in or intended for use in" interstate commerce, rather than the more limited "produced for or placed in" interstate commerce.

b. The Foreign and Economic Espionage Penalty Enhancement Act of 2012 increases penalties for violations of the EEA ten fold.

3. The Uniform Trade Secrets Act (UTSA) has been adopted in some form by nearly every state, the District of Columbia, and the U.S. Virgin Islands. This uniform act represents a largely accepted legal framework for the protection of trade secrets and commercial industry.

4. Although the precise definition will vary from state to state, a "trade secret" is generally defined as information that derives independent economic value from not being generally known to, or readily ascertainable by proper means by, others. To preserve a trade secret, the owner thereof must make reasonable efforts to maintain its secrecy. UTSA § 1(4).

    a. A substantial amount of trade secret litigation centers on whether the company seeking protection took reasonable measures to keep the information a secret.

        (1) The only way an owner of a trade secret can economically benefit from it is to sell access to that information to others.

        (2) As long as the disclosure is made to a recipient who agrees to keep the information confidential, the trade secret retains its protection.

    b. There is no limit to how long a trade secret may last; duration depends only upon how long it remains secret and retains independent economic value as a result of its secrecy.

5. Trade secrets do not protect against independent discovery by others. Nor do they protect against reverse engineering (though trade secret owners will typically include a contractual prohibition against reverse engineering when sharing their trade secrets with others).

6. By their nature, trade secrets cannot co-exist with patents. Various factors will inform the decision of which form of protection is more appropriate for a particular piece of IP:

    a. How quickly the market moves/how quickly the IP will become obsolete;

    b. How easy it is to maintain the secret in light of reverse engineering efforts, the likelihood of independent discovery, and the level of access the public will have to articles embodying the trade secret (and whether they can be bound by contract not to reverse engineer the secret);

    c. How easy it is to detect infringement/misappropriation; and

    d. Whether foreign protection is desired.

C. Copyrights.

1. Like the patent system, the copyright system is authorized by Art. I, § 8, cl. 8 of the U.S. Constitution.

2. Congress extensively amended copyright laws in 1976. Prior to 1976, there was a dual federal and state system of copyright protection. The Copyright Act of 1976 preempted state copyright laws. *See* 17 U.S.C. § 301. Some residual, copyright-like state law claims survive, however.

3. The Register of Copyrights within the Library of Congress (LOC) is the Government agency that has oversight responsibility for the copyright system. 17 U.S.C. § 701.

4. Copyright laws give the author of an original work of authorship fixed in a tangible medium of expression (*see* 17 U.S.C. § 102) a bundle of five exclusive rights (*see* 17 U.S.C. § 106):

    a. Reproduce the copyrighted work;

    b. Prepare derivative works based upon the original work;

    c. Distribute copies of the work to others;

    d. Perform the work in public; and

    e. Display the work in public.

5. The types of original works that may be copyrighted include, but are not limited to (*see* 17 U.S.C. § 102(a)):

    a. Literary works;

    b. Musical works, including any accompanying words;

    c. Dramatic works, including any accompanying music;

    d. Pantomimes and choreographic works;

    e. Pictorial, graphic, and sculptural works;

    f. Motion pictures and other audiovisual works;

    g. Sound recordings; and

    h. Architectural works.

6. The term of this right varies. For a sole author who created a work after 1998, the term is for the life of the author plus 70 years. Alternate terms

depend upon when the work was created, whether there was more than one author, whether the work was done anonymously, and whether the work qualifies as a "work made for hire." 17 U.S.C. §§ 302-305.

7. Although the work has to be "original," the statute does not define the term. Courts have interpreted the term to merely require that the work be independently created and possess some modicum of creativity (*e.g.*, a very low hurdle). Unlike patents, the work need not entail more than an obvious revision to existing art. *Feist Publ'ns, Inc. v. Rural Telephone Serv. Co., Inc.*, 499 U.S. 340 (1991). The strength of the copyright, however, is related to the level of originality in the work.

8. An author may place the world on notice that s/he is claiming a copyright in the work by placing a notice on all distributed copies of the work. This notice commonly consists of the symbol "©" followed by the year the work was first published and the name of the copyright owner. 17 U.S.C. § 401. Distribution of material without the copyright notice may invalidate the copyright under certain circumstances. 17 U.S.C. § 405(a). Even where the copyright is not invalidated, the author will not be able to recover royalties from an innocent infringer, one who was unaware of the copyright. 17 U.S.C. § 405(b).

9. Authors may (but are not required to) register for a copyright in a work by depositing a copy of the work at the LOC for review. 17 U.S.C. § 407(a). Registration is a prerequisite to suit in federal court (that is, to enforcement of the copyright). Moreover, unless a work is timely registered, certain remedies for copyright infringement will not be available. 17 U.S.C. §§ 411-412.

10. No copyright subsists in US Government works (that is, works, like this outline, created by officers and employees of the US Government in the scope of their official duties). The Government can, however, own copyrights. 17 U.S.C. § 105.

D. Trademarks.

1. The Patent and Copyright provision of the U.S. Constitution does not expressly grant Congress any authority to enact Trademark Laws.

2. In 1870, Congress, relying upon its inherent authority under the Constitution's Interstate Commerce Clause, enacted the first federal trademark statute, but it opted not to preempt state law. The Lanham Act of 1946 established the current federal trademark law. The Lanham Act continues to co-exist with state and common law, allowing trademark owners to enforce their rights under multiple, co-existing regimes of protection.

3. Trademark law allows manufacturers and service providers to use marks that distinguish their goods or services from the goods and services of others and to restrict others from using confusingly similar marks. 15 U.S.C. § 1125.

4. Types of marks:

   a. Trademarks. Used to identify the source or origin of goods.

   b. Service marks. Used to identify the source or origin of services.

   c. Collective marks. Used by members of an organization or group to distinguish their products or services from non-group members.

   d. Certification marks. Used to show the product or service meets certain characteristics or function levels.

5. The first user of an "inherently distinctive" mark, or of a "descriptive" mark that has acquired "secondary meaning" (*e.g.*, a mark that, once descriptive, has nonetheless acquired distinctiveness), has the right to continue to make use of that mark so long as the mark is used in commerce in association with goods or services. The first user can exclude others from, *inter alia*:

   a. Using the mark in a confusingly similar manner (*e.g.*, selling a similar product under the same mark);

   b. Using confusingly similar marks (*e.g.*, selling a similar product under a similar mark); and

   c. Diluting the value of the mark (*e.g.*, tarnishing the value of a mark by associating it with pornographic material).

6. Registration of the mark with the PTO is not required to gain these rights, but doing so establishes *prima facie* evidence of the registrant's exclusive right to use the mark. 15 U.S.C. § 1115. If the user registers the mark and makes continuous usage of the mark for five years, the *user's* right to the continued use of the mark, upon application, may become uncontestable. 15 U.S.C. § 1065.

7. The Government achieves some trademark-like protection through statutes other than the Lanham Act. *See, e.g.*, 14 U.S.C. § 639 ("USCG," "USCGR," "Coast Guard," and the like); 18 U.S.C. § 711 (Smokey Bear). The Government also owns federally registered trademarks, particularly after 1999 amendments clarified that the Government can register marks.

8. The Departments of Defense and Homeland Security have special authority to use the proceeds earned by licensing certain of its trademarks

for morale, welfare, and recreation activities. *See* 10 U.S.C. § 2260. As a result, there is an increased focus on military "branding."

9. Trademark considerations also appear in the procurement context, such as when contractors attempt to register (or actually succeed in registering) marks that have an association with the Government (*e.g.*, HUMVEE, which AM General has registered in connection with numerous goods and services beyond the military vehicle). Brand name or equal solicitations also implicate trademarks.

E. Multiple Avenues of Protection. Many innovations/creative concepts may be protected under more than one of the above areas.

1. Opting to protect under one regime often will not prevent later protection under an alternate regime, so long as requirements are met and terms of protection have not expired.

2. Sometimes inventors will have to choose among alternate regimes, such as between patent protection and trade secret protection.

IV. RIGHTS IN TECHNICAL DATA AND COMPUTER SOFTWARE – HISTORICAL BACKGROUND AND FUNDAMENTAL PRINCIPLES

A. Purpose, Policy, and Historical Background. *See* FAR 27.402 (data generally); DFARS 227.7102-1 (commercial technical data); DFARS 227.7103-1 (non-commercial technical data); DFARS 227.7202-1 (commercial computer software); DFARS 227.7203-1 (non-commercial computer software).

1. "Rights in technical data and computer software" is not a separate area of intellectual property. Rather, it is a merger of copyright law, trade secret law, and contract law.

2. There are two separate regimes:

a. The technical data and computer software regime for defense agencies is set forth in Part 227 of the DFARS, with the corresponding clauses at DFARS 252.227.

b. The data regime for civilian agencies is set forth in Part 27 of the FAR, with the corresponding clauses at FAR 52.227.

c. FAR 27/52.227 and DFARS 227/252.227 do not both apply. The Department of Defense is exempt from FAR Part 27 and the clauses at FAR 52.227. *See* FAR 27.400; DFARS 227.400.

d. It is important to understand which regime controls your procurement, because the FAR and DFARS take antithetical approaches to contractor IP.

3. There are numerous purposes underlying the technical data and computer software regimes, including:

   a. Fulfilling certain responsibilities for disseminating and publishing results of activities;

   b. Ensuring appropriate utilization of the results of research, development, and demonstration activities, including the dissemination of technical information to foster subsequent technological developments;

   c. Acquiring maintenance and repair from other than the original equipment manufacturer (OEM); and

   d. Planning for competitive reprocurement.

4. Historical Development

   a. Prior to World War II, there was no standing military, so there was also no need to maintain, repair, and replace large quantities of equipment. The first technical data regulation was issued in 1955 and provided the Government with complete access to data. *See Bell Helicopter Textron*, ASBCA 21192, 85-3 BCA ¶ 18,415. This was unacceptable to many contractors, who gradually refused to do work for the Government (at least, not at a reasonable price).

   b. The current system was established in 1984 as part of the drastic overhaul that Congress made to the government contracts process in the Competition in Contracting Act and the Defense Procurement Reform Act. Congress believed a lack of technical data forced the Government to reprocure on a sole-source basis with the original manufacturer, thus causing inflated prices. Some of these same criticisms survive today. *See* United States Government Accountability Office, *Defense Contracting: Early Attention in the Acquisition Process Needed to Enhance Competition* (GAO-14-395) (May 2014).

   c. The Government adopted the policy that it is not in its best interest to use its bargaining power to obtain unlimited rights to use all of a contractor's technical data. Rather, the policy is to balance the interests in establishing rights to technical data when the contractor has developed items, components, or processes partially or fully at private expense.

   d. The relevant statutes (*e.g.*, 10 U.S.C. § 2320 and 41 U.S.C. § 2302) speak only to the Government's rights in technical data and are silent as to the Government's rights in computer software.

Computer software, however, is generally treated analogous to technical data. *See generally infra*.

B. Fundamental Principles

1. Ownership vs. License: The Government rarely takes ownership of contractor IP. Typically, the contractor retains ownership of its IP, subject to a non-exclusive Government license. The scope of the Government's license depends on several factors discussed below.

2. Distinguishing Between Deliverables and Rights: Deliverables are the items of IP that the contractor is required to deliver as an element of contract performance (*e.g.*, a particular technical data package or drawing; a particular piece of computer software). Rights are what the Government is permitted to do with those deliverables. The Government may also have rights in items of technical data or computer software that are not deliverables; this situation is often referred to as "inchoate rights."

3. Taking the Minimum Necessary: The Government should take only the minimum necessary deliverables and the minimum necessary rights in those deliverables in order to meet its needs. *See, e.g.*, FAR 27.402; DFARS 227.7103-1; DFARS 227.7203-1.

4. The Doctrine of Segregability: Under contracts with defense agencies (that is, contracts subject to DFARS Part 227), rights determinations can be made at the sub-item or sub-component level for technical data (*see* DFARS 227.7103-4(b)) and as to "the lowest segregable portion of the software or documentation" for computer software and computer software documentation (DFARS 227.72-3-4(b)). The concept of segregability does not exist in FAR Part 27.

C. Important Distinctions

1. Is the contract subject to FAR Part 27 or DFARS Part 227?

2. Is the procurement commercial or non-commercial?

3. Is the item in question technical data or computer software?

V. RIGHTS IN TECHNICAL DATA – DEFENSE AGENCIES – NON-COMMERCIAL PROCUREMENTS (DFARS 252.227-7013)

A. Definition. *See* 10 U.S.C. § 2302(4); DFARS 252.227-7013(a)(14).

1. "Technical data" is recorded information, regardless of the form or method of the recording, of a scientific or technical nature.

2. "Technical data" includes computer software documentation and computer databases (but not computer software).

3. "Technical data" does not include data incidental to contract information, such as financial or management information (*e.g.*, cost and pricing data). Nor does it include unrecorded information (*e.g.*, general "know how" or "show how").

4. "Technical data" also does not include the end item itself. *See Night Vision Corp. v. United States*, 68 Fed. Cl. 368, 381 n.16 (2005). As a result, absent an express contractual prohibition, the Government is free to reverse engineer items and components or provide those items and components to third parties to do the same; indeed, reverse engineering is expressly contemplated as a viable alternative when a contractor is unwilling or unable to grant the Government a sufficient license. *See* DFARS 227.7103-5(d)(2)(iii). This is the case even if the contractor properly asserted restrictions in the technical data corresponding to the item or component.

B. Standard Licenses.

1. Unlimited Rights: The rights to use, modify, reproduce, perform, display, release, or disclose technical data in whole or in part, in any manner, and for any purpose whatsoever, and to have or authorize others to do the same. DFARS 252.227-7013(a)(16).

   a. This is the broadest of the standard licenses and, though the contractor retains ownership of the technical data, the contractor has likely lost any trade secret protection and may have difficulty commercializing the technical data.

   b. The license belongs to the Government, so it is the Government's option whether or not to further disclose the technical data. Thus, even though the Government could give the technical data to a competitor to use commercially, the competitor cannot, absent a grant from the Government, simply use the technical data.

2. Government Purpose Rights: Government purpose rights provide the Government with unlimited in house rights and allow the Government to release or disclose the technical data outside the Government and authorize third parties to use, modify, reproduce, release, perform, display, or disclose the technical data for government purposes. DFARS 252.227-7013(a)(13).

   a. "Government purposes" means any activity in which the Government is a party. It includes competitive procurement, but excludes commercial purposes. DFARS 252.227-7013(a)(12).

b. By default, government purpose rights become unlimited rights five years after execution of the contract, option, or the like that requires delivery of the technical data. 10 U.S.C. § 2320(c); DFARS 227.7103-5(b)(2)-(3); DFARS 252.227-7013(b)(2)(ii). The five-year sunset period can be, and often is, extended by mutual agreement of the parties.

c. When and for so long as the Government has government purpose rights, the contractor retains the exclusive right to license the technical data to others for commercial purposes. DFARS 252.227-7013(b)(2)(iv).

d. Disclosure of government purpose rights technical data outside the Government must either be subject to the non-disclosure agreement at DFARS 227.7103-7 or to a Government contractor receiving access to the technical data for performance of a Government contract that contains DFARS 252.227-7025. DFARS 252.227-7013(b)(2)(iii).

3. Limited Rights: Limited rights provide the Government with unlimited in house rights but restrict the Government from releasing or disclosing the technical data outside the Government except in limited circumstances. The two most common circumstances where outside disclosures are permitted are disclosures necessary for emergency repair and overhaul and disclosures to covered government support contractors. DFARS 252.227-7013(a)(14).

a. A covered government support contractor is a technical assistance/advisory services contractor acting in support of the Government's management and oversight of a program or effort. The covered government support contractor cannot be affiliated with or a direct competitor of the prime contractor or a first-tier subcontractor in furnishing end items or services of the type developed or produced on the effort. DFARS 252.227-7013(a)(5).

(1) The covered government support contractor is subject to the additional restrictions set forth in DFARS 252.227-7025.

(2) At the discretion of the owner of the technical data being disclosed to the covered government support contractor, the covered government support contractor can be required to enter into a non-disclosure agreement directly with the technical data owner (consistent with DFARS 252.227-7025).

(3) The Government must notify the technical data owner of any disclosures to covered government support contractors.

b. 10 U.S.C. § 2320 was recently amended to allow disclosures of limited rights technical data when necessary to segregate or reintegrate an item or process from or with other items or processes. *See* 10 U.S.C. § 2320(a)(2)(D). Such disclosures are subject to similar restrictions as disclosures to covered government support contractors. This amendment to the statute has not yet been implemented in the DFARS.

C. Specifically Negotiated License Rights. The Government and the contractor may modify the standard licenses so long as the Government receives no less than limited rights in the technical data. 10 U.S.C. § 2320(a)(2) and (c); DFARS 227.7103-5(d); DFARS 252.227-7013(b)(4).

D. Rights Allocations: The Funding Test

1. The Government's default rights in many types of non-commercial technical data are dictated by the source of development funding for the item, component, or process to which the technical data pertains. To determine the appropriate default license, three elements must be analyzed: (i) whether the technical data pertains to items, components, or processes; (ii) whether the item, component, or process qualifies as "developed;" and (iii) what source of funds was used to accomplish the development. DFARS 227.7103-4.

2. Pertaining to Items, Components, or Processes

a. For technical data that pertains to items, components, or processes, the default scope of the license is determined by the source of funds used to develop the item, component, or process. This is not necessarily the same source of funds used to develop the technical data itself. DFARS 227.7103-4(a)(2).

b. An item, component, or process is considered all-inclusive, referring to the end product that resulted from private development and every separable intermediate level of assembly and to every separable piece part down to the smallest level. DFARS 227.7103-4(b); *Bell Helicopter Textron*, ASBCA 21192, 85-3 BCA ¶ 18,415.

(1) The concept of identifying privately-funded, severable portions of end products (*e.g.*, any individual part, component, subassembly, assembly, or subsystem) is referred to as segregability. *See* Section IV.B.4, *supra*.

(2) Segregability permits contractors to assert restrictions in any piece of technical data that pertains to an element of

the product or service that has been developed partially or wholly at private expense. *Cf. Ervin & Assoc., Inc. v. United States*, 59 Fed. Cl. 267 (2004) (finding that an entire package of technical data was provided with unlimited rights because some government funds were used to create the package; the court did not consider that some elements of the package were developed at private expense).

3. Developed. DFARS 252.227-7013(a)(7).

   a. An item, component, or process is "developed" when it exists and is workable (*e.g.*, the item has been constructed or the process practiced).

   b. Workability is generally established when the item, component, or process has been analyzed or tested sufficiently to demonstrate to reasonable people skilled in the art that there is a high probability that it will operate as intended. The level of proof required will depend upon the nature of the item and the state of the art, but workability generally does not require that the item, component, or process be at a stage where it could be offered for sale or sold on the commercial market. Nor does workability require a reduction to practice within the meaning of patent law.

4. The Source of Funds Determination.

   a. Exclusively at Private Expense. An item, component, or process is developed exclusively at private expense if development was accomplished entirely with costs charged to indirect cost pools and/or costs not allocated to a Government contract. DFARS 252.227-7013(a)(8).

      (1) The costs of independent research and development (IR&D) costs and bid and proposal costs are not considered Government funds. 10 U.S.C. § 2320(a)(3); DFARS 252.227-7013(a)(8) and (10). *Compare Boeing Co. v. United States*, 69 Fed. Cl. 397 (2006) (work properly charged to IR&D project so Government was not entitled to patent rights) *with United States ex rel. Mayman v. Martin Marietta Corp.*, 894 F. Supp. 218 (D. Md. 1995) (work improperly charged to IR&D) *and United States v. Newport News Shipbuilding, Inc.*, 276 F. Supp. 2d 539 (E.D. Va. 2003) (holding contractor improperly charged costs of designing commercial vessels to IR&D).

      (2) Contractors must ensure that their IR&D charges are consistent with their disclosed accounting practices. *See*

ATK Thiokol, Inc. v. United States, 598 F.3d 1329 (Fed. Cir. 2010).

(3) Under a firm-fixed-price contract, development costs in excess of the firm-fixed-price are not considered private expense. DFARS 252.227-7013(a)(8)(ii).

b. Exclusively at Government Expense. An item, component, or process is developed exclusively at Government expense if it is not developed exclusively or partially at private expense. DFARS 252.227-7013(a)(9).

c. Mixed Funding. An item, component, or process is developed with mixed funding if development is accomplished partially with costs charged to indirect cost pools and/or costs not allocated to a Government contract and partially with costs charged directly to a Government contract. DFARS 252.227-7013(a)(10).

d. Under the doctrine of segregability, the source of funds determination is made at the lowest level possible, allowing the contractor to assert funding-based restrictions in technical data pertaining to a "segregable sub-item, subcomponent, or portion of a process." *See* DFARS 252.227-7013(a)(8)(i); Section IV.B.4, *supra*.

E. Default Rights Allocations

1. Unlimited Rights (DFARS 252.227-7013(b)(1)). The Government shall have unlimited rights in the following technical data:

a. Technical data pertaining to items, components, or processes developed exclusively at Government expense;

b. Studies, analyses, test data, or similar data that are produced for the contract when the work was specified as an element of contract performance;

c. Technical data created exclusive with Government funds in the performance of a contract that does not require the development, manufacture, construction, or production of items, components, or processes;

d. Form, fit, and function data;

e. Data necessary for operations, maintenance, installation, or training purposes (OMIT data), other than detailed manufacturing or process data;

f. Corrections or changes to technical data furnished to the contractor by the Government;

g. Technical data that is otherwise publicly available or released/disclosed by the contractor without restriction;

h. Technical data in which the Government has obtained unlimited rights under another contract or as a result of negotiation; and

i. Technical data furnished with government purpose rights and the restrictions have expired.

2. Government Purpose Rights (DFARS 252.227-7013(b)(2)). The Government shall have government purpose rights in the following technical data:

a. Technical data pertaining to items, components, or processes developed with mixed funding (except when the Government is entitled to unlimited rights as set forth above); and

b. Technical data created with mixed funding in the performance of a contract that does not require the development, manufacture, construction, or production of items, components, or processes.

3. Limited Rights (DFARS 252.227-7013(b)(3)). The Government shall have limited rights in the following technical data:

a. Technical data pertaining to items, components, or processes developed exclusively at private expense (except when the Government is entitled to unlimited rights as set forth above); and

b. Technical data created exclusively at private expense in the performance of a contract that does not require the development, manufacture, construction, or production of items, components, or processes.

4. Contractors cannot be required to provide the Government with additional rights beyond those to which the Government is entitled as a condition of contract award. DFARS 227.7103-1(c). For example, the Government cannot condition eligibility for award on receiving unlimited rights where the contractor is entitled to assert government purpose or limited rights. The Government can, however, consider the rights a contractor is willing to grant when making its source selection decision, provided such consideration is consistent with the established evaluation criteria. For example, assuming the evaluation criteria so provide, the Government can rate a proposal that offers government purpose rights higher than a proposal that offers only limited rights as part of its cost-technical tradeoff analysis.

F. Subcontractor technical data is subject to the same rules discussed above. DFARS 252.227-7013(k).

1. Prime contractors and higher-tier subcontractors are required to flow down the appropriate clauses ***without alteration of the parties***. That is, the rights allocation clauses allocate rights as between the Government and a contractor at any tier, and not as between contractors at various tiers.

2. Prime contractors and higher-tier subcontractors are required to satisfy their obligations to the Government, but they are not permitted to use their position to leverage greater rights for themselves. Separate consideration is required if a prime contractor or higher-tier subcontractor wishes to license technical data from a downstream contractor or supplier.

3. Subcontractors are also permitted to submit their technical data directly to the Government. 10 U.S.C. § 2320(a)(1); DFARS 227.7103-15; DFARS 252.227-7013(k)(3).

VI. RIGHTS IN COMPUTER SOFTWARE – DEFENSE AGENCIES – NON-COMMERCIAL PROCUREMENTS (DFARS 252.227-7014)

A. The Government's rights in non-commercial computer software generally parallel its rights in non-commercial technical data, such that Section V of this outline generally applies to non-commercial computer software *mutatis mutandis*.[4] This section highlights certain salient points and differences unique to acquisitions of non-commercial computer software.

B. Definition. *See* DFARS 252.227-7014(a)(4).

1. "Computer software" means computer programs, source code, source code listings, object code listings, design details, algorithms, and the like that would enable the software to be reproduced, recreated, or recompiled.

2. "Computer software" excludes computer software documentation and computer databases, which are technical data instead.

C. Standard Licenses.

1. Unlimited Rights: Generally the same as unlimited rights in technical data. *See* DFARS 252.227-7014(a)(16); Section V.B.1, *supra*.

[4] A rule to streamline DFARS Part 227 by, *inter alia*, combining the clauses for technical data and computer software was proposed in 2010. *See* 75 Fed. Reg. 59412 (Sept. 27, 2010); Nicole J. Owren-Wiest and Scott A. Felder, *DoD Proposes Comprehensive DFARS Rewrite to "Clarify & Streamline" Rules Related to Government Rights in Technical Data & Computer Software, Patents & Copyrights* (Sept. 27, 2010), *available at* http://www.wileyrein.com/publications.cfm?sp=articles&id=6383. As of the publication of this outline, the corresponding DFARS case (2010-D001) is no longer listed as open. *See* Open DFARS Cases as of May 19, 2014, *available at* http://www.acq.osd.mil/dpap/dars/opencases/dfarscasenum/dfars.pdf.

2. Government Purpose Rights: Generally the same as government purpose rights in technical data. *See* DFARS 252.227-7014(a)(12); Section V.B.2, *supra*.

3. Restricted Rights: Analogous to limited rights in technical data. *See* DFARS 252.227-7-14(a)(15); Section V.B.3, *supra*.

a. Limited rights allow the Government to use the software on one computer at one time, unless otherwise permitted, and to make a minimal number of archive copies.

b. The Government is permitted to modify the software, but the modifications are themselves subject to restricted rights.

c. Contractors performing service contracts are permitted to use the software to diagnose and correct deficiencies, to modify the software to enable a program to be combined with other programs, or to respond to urgent tactical situations, provided that such contractors are subjected to further restrictions similar to those applicable to the release or disclosure of limited rights technical data.

D. Specifically Negotiated License Rights. As with acquisitions of non-commercial technical data, the parties are free to specifically negotiate a license for non-commercial computer software, provided the Government never receives less than restricted rights. DFARS 252.227-7014(b)(4).

E. Rights Allocations: The Funding Test for Computer Software

1. In general, the funding test applies to non-commercial computer software just as it does to non-commercial technical data. This includes the doctrine of segregability. *See* Section V.D, *supra*.

2. The definition of "developed" is slightly different in the computer software context. *See* DFARS 252.227-7014(a)(7).

a. A computer program (*i.e.*, a set of instructions, rules, or routines, recorded in a form that is capable of causing a computer to perform a specific operation or set of operations) is developed when the program has been successfully operated in a computer and tested to the extent sufficient to demonstrate to reasonable persons skilled in the art that the program can reasonably be expected to perform its intended purpose.

b. Computer software (anything other than a computer program) is developed when it has been tested or analyzed to the extent sufficient to demonstrate to reasonable persons skilled in the art

that the software can reasonably be expected to perform its intended purpose.

c. Computer software documentation (which is a species of technical data, not a species of computer software) is developed when it has been written in sufficient detail to comply with contractual requirements.

F. Default Rights Allocations

1. Unlimited Rights (DFARS 252.227-7014(b)(1)). The Government shall have unlimited rights in the following:

a. Computer software developed exclusively at Government expense;

b. Computer software documentation required to be delivered under the contract;

c. Corrections or changes to computer software or computer software documentation furnished to the contractor by the Government;

d. Computer software or computer software documentation obtained with unlimited rights under another contract or as a result of negotiations; and

e. Computer software furnished with restrictions that have expired.

2. Government Purpose Rights (DFARS 252.227-7014(b)(2)). The Government shall have government purpose rights in computer software developed with mixed funding (except when the Government is entitled to unlimited rights as set forth above).

3. Restricted Rights (DFARS 252.227-7014(b)(3)). The Government shall have restricted rights in computer software developed exclusively at private expense (except when the Government is entitled to unlimited rights as set forth above).

G. The rules regarding subcontractor computer software are analogous to those applicable to subcontractor technical data. *See* DFARS 252.227-7014(k); Section V.F, *supra*.

VII. RIGHTS IN TECHNICAL DATA AND COMPUTER SOFTWARE – DEFENSE AGENCIES – COMMERCIAL PROCUREMENTS

A. Commercial Technical Data (DFARS 252.227-7015)

1. As a matter of policy, the Government only acquires the technical data customarily provided to the public with a commercial item or process.

DFARS 227.7102-1(a). Exceptions include form, fit, and function data; data required for repair or maintenance of commercial items or processes; data required for the proper installation, operation, or handling of a commercial item; and data that describe the modifications made at Government expense to a commercial item or process in order to meet Government requirements. *Id.*

2. The Government receives unlimited rights in the following technical data (DFARS 252.227-7015(b)(1)):

    a. Technical data that have been provided to the Government or others without further restriction, except in the case of a transfer of ownership (*e.g.*, an acquisition of the intellectual property by another company);

    b. Form, fit, and function data;

    c. Corrections and changes to technical data furnished to the contractor by the Government;

    d. OMIT data (other than detailed manufacturing or process data); and

    e. Technical data provided with unlimited rights in a prior contract or agreement.

3. For all other commercial technical data, the Government is subject to similar restrictions as with non-commercial technical data subject to limited rights. *See* DFARS 252.227-7015(b)(2).

    a. The Government may use, modify, reproduce, release, perform, display, or disclose the technical data only within the Government.

    b. The Government shall not use the technical data to manufacture additional quantities of the commercial item.

    c. The Government may release or disclose the technical data for emergency repair or overhaul or to a covered government support contractor.

4. The parties can also negotiate specific license rights in commercial technical data. DFARS 252.227-7015(c).

5. The theory for the default allocation of rights is that commercial items are most typically developed exclusively at private expense.

a. The non-commercial rules (*e.g.*, DFARS 252.227-7013) will apply in the event some or all of the commercial item was developed at Government expense. *See* DFARS 227.7102-4(b).

b. For purposes of validation of and challenges to a contractor's assertion of restrictions on technical data, the following funding presumptions will apply:

(1) Commercial items are generally presumed to have been developed exclusively at private expense; *except*

(2) Major systems and subsystems/components thereof are *not* presumed to have been developed exclusively at private expense; *unless*

(a) A major system is defined in FAR 2.101 as a system having estimated research, development, test, and evaluation costs in excess of $189.5 million *or* a total acquisition cost in excess of $890 million.

(b) The agency head can also designate something a "major system."

(3) It is a commercial-off-the-shelf (COTS) item, component, or process.

6. The rules applicable to subcontractors are analogous to those discussed above in connection with non-commercial technical data. *See* Section V.F, *supra*.

B. Commercial Computer Software (No Clause)

1. Under DFARS 227.7102-1, the Government licenses commercial computer software subject to the same license as any other commercial licensee unless that license is inconsistent with federal law or otherwise does not meet the Government's needs. The license must be incorporated into the contract.

2. There are a number of common commercial license clauses that are objectionable to the Government. These include:

a. Click-wrap and shrink-wrap license terms;

b. Open-ended indemnification by the licensee. Per new FAR 52.212-4, such clauses are unenforceable against the Government and are severed from the agreement, unless otherwise authorized by law;

c. Choice of law and choice of forum clauses;

d. Contractual limitations on actions;

e. Automatic renewal terms;

f. Warranty terms (particularly limitations on warranties);

g. Injunctive relief for breach by the licensee;

h. Clauses that permit immediate, unilateral termination by the licensor for breaches by the licensee;

i. Clauses that permit the licensor to unilaterally modify the license terms or terms of service;

j. Clauses that impose liability on the licensee for the licensor's taxes; and

k. Certain confidentiality provisions.

VIII. DATA RIGHTS – CIVILIAN AGENCIES

A. The FAR has a single clause, FAR 52.227-14, that controls the Government's rights in "data," without expressly differentiating between commercial or non-commercial The FAR generally does not differentiate between commercial and non-commercial data or between technical data and computer software. FAR 52.227-14 does not, however, apply to commercial computer software.

1. "Data" means recorded information, regardless of form or the media on which it may be recorded.

2. "Data" includes both technical data and computer software, which are defined similarly to the DFARS. *See* Sections V.A and VI.B, *supra*.

3. "Data" does not include information incidental to contract administration, such as financial, administrative, cost or pricing, or management information.

B. The FAR expressly includes only unlimited rights, limited rights (for technical data) and restricted rights (for computer software). The FAR does not expressly recognize the concepts of government purpose rights, specifically negotiated license rights, or segregability.

C. In addition, the default manner in which the FAR allows a contractor to protect its data is by ***withholding*** that data from delivery to the Government and delivering form, fit, and function data in its place. FAR 52.227-14(g). Indeed, under the standard FAR clause, the Government receives unlimited rights in all data

delivered under contract. This is in contrast to the DFARS model, which allows the contractor to deliver certain technical data and/or computer software subject to restrictions.

D. The Government shall have unlimited rights in the following data (FAR 52.227-14(b)(1)):

1. Data first produced in the performance of the contract;

   a. FAR 52.227-14 does not include a funding test. The current wisdom, however, is to nonetheless adopt a "source of funding" approach for such data.

   b. FAR 52.227-14 also does not make delivery a requirement. Thus, FAR 52.227-14 leaves open the possibility that the Government will have inchoate rights in data first produced in the performance of the contract.

2. Form, fit, and function data delivered under the contract;

3. Data delivered under the contract (except for restricted computer software) that constitute manuals or instructional and training material for OMIT or repair of items, components, or processes delivered or furnished for use under the contract; and

4. All other data delivered under the contract, unless provided otherwise as limited rights data or restricted computer software.

E. Limited Rights Technical Data and Restricted Computer Software

1. Limited rights technical data is data, other than computer software, that embodies trade secrets or are commercial or financial and confidential or privileged, to the extent that such data pertain to items, components, or processes developed at private expense, including minor modifications to the same. FAR 52.227-14(a).

   a. If delivered in accordance with Alternates I and II, limited rights technical data can only be used and disclosed within the Government, except for manufacturing purposes, and in accordance with the additional Government rights negotiated and incorporated into the contract.

   b. Absent Alternates I and II, limited rights technical data can only be protected by withholding it and delivering form, fit, and function data (subject to unlimited rights) instead.

2. Restricted computer software is computer software developed at private expense and that is trade secret, commercial or financial and confidential

or privileged, or is copyrighted computer software, including minor modifications to the same. FAR 52.22-14(a).

a. If delivered in accordance with Alternates I and III, restricted rights computer software can only be used on the computer for which acquired. Additional Government rights can be negotiated and incorporated into the contract.

b. Absent Alternates I and III, restricted rights computer software can only be protected by withholding it and delivering form, fit, and function data (subject to unlimited rights) instead. In the software context, form, fit, and function data is data identifying the source, functional characteristics, and performance requirements, but excluding source code, algorithms, processes, formulas, and flow charts.

F. Commercial Computer Software

1. The Government licenses commercial computer software subject to the same license as any other commercial licensee unless that license is inconsistent with federal law or otherwise does not meet the Government's needs. The license must be incorporated into the contract. FAR 12.212.

2. If there is confusion as to whether the Government's needs are satisfied or whether the customary commercial license is consistent with federal law, the Government may include the clause at FAR 52.227-19. FAR 27.405-3; FAR 27.409(g).

	Commercial Technical Data	Commercial Software	Non-commercial Technical Data	Non-commercial Software
Defense	252.227-7015 (252.227-7013 for elements developed at Government expense)	No clause; adopt standard commercial license unless inconsistent with federal law or does not meet needs	252.227-7013	252.227-7014
Civilian	52.227-14	Adopt standard commercial license unless inconsistent with federal law or does not meet needs; can use 52.227-19	52.227-14	52.227-14

Table 1: Summary of Applicable Clauses

IX. RIGHTS IN SPECIAL WORKS AND EXISTING WORKS

A. The Special Works clauses concern works created under contract such as books, computer databases, and the like and are used when the Government has a specific need to limit distribution and use of such works or to obtain indemnity for liabilities that may arise out of the content, performance, or disclosure of the works. FAR 27.405-1; *see also* DFARS 227.7106. Unlike the clauses discussed above, the Special Works clauses not only grant the Government unlimited rights in the works, they also allow the Government to require the contractor to assign its copyright in the works to the Government and to restrict the contractor's use of the works. FAR 52.227-17; DFARS 252.227-7020.

B. The Existing Works clauses are used when the Government is acquiring an existing work without modification. FAR 27.405; *see also* DFARS 227.7105. At least under the DFARS, the considerations for the use of the Existing Works clause are similar to those for the Special Works clause. The Existing Works clauses grant the Government a broad license to distribute, publicly perform, and publicly display the work, and also require the contractor to indemnify the Government under certain circumstances. FAR 52.227-18; DFARS 252.227-7021.

X. DATA RIGHTS IN PRACTICE

A. Contractor Identification and Assertion of Restrictions

1. Contractors' restrictions on the Government's rights in their technical data and/or computer software are not self-executing and depend upon proper pre- and post-award identification and the application of prescribed markings. In other words, the Government receives unlimited rights in technical data and computer software unless the contractor takes affirmative steps to limit such rights.

2. Contractors identify technical data and/or computer software in which the Government will have less than unlimited rights by including with their offer a listing of all data in which the Government will not have unlimited rights. *See* FAR 52.227-15; DFARS 252.227-7017.

   a. FAR 52.227-15 requires the offeror to represent either (1) that data required to be delivered under the contract qualifies as limited rights technical data or restricted rights computer software or (2) that none of the data to be delivered under the contract qualifies as limited rights technical data or restricted rights computer software.

   b. DFARS 252.227-7017 requires offerors to identify, to the extent known at the time the offer is submitted, the technical data and/or computer software that the offeror and its actual or potential

subcontractors and suppliers assert should be furnished with restrictions.

(1) Assertions at all tiers are submitted as an attachment to the offer in a prescribed tabular format, dated and signed by an authorized representative of the offeror.

(2) If the proposal is successful, the assertion table is attached to the contract.

(3) Additional data to be provided with restrictions may be identified and added to the assertion table after award only if the addition is based on new information or was inadvertently omitted.

B. Marking of Technical Data and Computer Software

1. Contractors may only assert restrictions by marking the deliverable technical data or computer software with an appropriate legend. The only "appropriate" legends are those set forth in the rights allocation clauses themselves. FAR 52.227-14(g)(3) (Alt. II); FAR 52.227-14(g)(4)(i) (Alt. III); DFARS 252.227-7013(f); DFARS 252.227-7014(f).

a. Contractors are prohibited from delivering technical data and computer software with restrictive markings unless that data is identified on the assertion table or other attachment to the contract. *See* DFARS 252.227-7013(e)(2); DFARS 252.227-7014(e)(2).

b. Contractors are required to have procedures that ensure that restrictive legends are only used when appropriate and to have records that justify the validity of any restrictive legends. *See* DFARS 252.227-7013(g); DFARS 252.227-7014(g).

c. The marking must be conspicuous and legible. It must appear on the transmittal document or storage container and on each page of printed material where applicable. *See* DFARS 252.227-7013(f)(1). For software, the restrictive legend should also be embedded in the software (*e.g.*, on splash screens) and the code (*e.g.*, headers), except where doing so could impair the usability of such software in combat situations or simulations. *See* DFARS 252.227-7014(f)(1).

2. If technical data or computer software are delivered ***without restrictive markings of any sort***, then they are presumed to be delivered with unlimited rights. DFARS 227.7103-10(c); DFARS 227.7203-10(c). The contractor can request permission to correct this defect, at its expense, within six months (or longer, at the contracting officer's discretion) after the unmarked data is delivered.

a. The contractor must identify the technical data or computer software to be marked, demonstrate that the omission of markings was inadvertent, justify the proposed markings, and acknowledge in writing that that Government is not liable for any disclosure, use, or release of the data made before the markings were added or resulting from the lack of markings.

b. The contracting officer should only grant the request where the data has not yet been distributed absent compatible restrictions on its use or disclosure.

3. If technical data or computer software are delivered with ***non-conforming markings*** (*i.e.*, markings that do not match a prescribed legend), the Government must notify the contractor of the non-conformity. If the non-conforming legend is not corrected or removed within 60 days, the Government may remove, ignore, or correct the non-conforming marking. DFARS 252.227-7013(h); DFARS 252.227-7014(h). This process can sometimes constitute a claim over which the Boards of Contract Appeals have jurisdiction. *See Alenia North America, Inc.*, ASBCA No. 57935, 2013 WL 1871512 (Mar. 26, 2013); Scott A. Felder and Nicole J. Owren-Wiest, *ASBCA Confirms Jurisdiction Over Data Rights Challenge*, Government Contracts Issue Update (Summer 2013), *available at* http://www.wileyrein.com/publications.cfm?sp=articles&id=8929&newsletter=3.

C. Validation and Challenges of Restrictive Markings

1. Contracts that include the delivery of technical data or computer software will include a clause that allows the Government to challenge and validate the contractor's asserted restrictions. *See* FAR 52.227-14(e) (data); DFARS 252.227-7019 (computer software); DFARS 252.227-7037 (technical data).

2. General Procedure

a. The challenge process begins when the contracting officer has "reasonable grounds to challenge the validity of an asserted restriction." DFARS 227.7103-13(c)(1); *see also* DFARS 227.7203-13. Where the presumption of development at private expense applies (*see* Section VII.A.5.b, *supra*), the Government cannot initiate a challenge unless it can demonstrate that it contributed development. DFARS 227.7103-13(c)(1).

b. Prior to initiating a challenge, the contracting officer can request that the contractor provide a written justification for any restriction asserted and can request further information (*e.g.*, contracts, correspondence, engineering documents, accounting and financial

records) as necessary to justify the basis for the contractor's asserted restrictions. DFARS 252.227-7019(d); DFARS 252.227-7037(d). If the contracting officer determines that reasonable grounds exist to question the validity of the marking, the contracting officer can initiate a challenge.

c. To initiate the challenge, the contracting officer sends a written notice to the contractor. DFARS 252.227-7019(g); DFARS 252.227-7037(e).

(1) The notice must state specific grounds for challenging the contractor's asserted restriction.

(2) The contractor is required to provide a response justifying the restrictive marking within 60 days. It is within the contracting officer's discretion to extend this deadline.

(3) A prior contracting officer's final decision sustaining the validity of an identical restrictive marking within three years shall be conclusive justification for the restrictive marking.

d. The contractor's response to the challenge notice constitutes a claim under the Contract Disputes Act and is required to be certified in the form prescribed by FAR 33.207 regardless of amount.

e. Following the contractor's response (or after the period for response has elapsed with no response), the contracting officer will issue a final decision.

(1) If the contracting officer finds that the restriction is valid, then the Government will be bound by the contracting officer's finding.

(2) If the contracting officer finds that the restriction is not justified, then the Government will be bound by the restrictive marking for 90 days, pending the contractor's decision to appeal the contracting officer's final decision to the Court of Federal Claims or the Board of Contract Appeals, and until final disposition if the decision is appealed.

f. The Government's right to challenge a contractor's asserted restrictions lasts for three years after final payment on the contract. *See* DFARS 252.227-7037(i).

D. Deferred Delivery and Deferred Ordering of Non-Commercial Technical Data and Computer Software

1. Deferred Delivery. Several versions of an item or process may be developed before the Government ultimately finalizes the item for production and fielding. The Government may not want or need data related to every iteration. To accommodate these considerations, the DFARS Deferred Delivery clause (DFARS 252.227-7026) permits the Government to defer delivery of data for up to two years after contract termination. The data should be identified in the contract as "deferred delivery."

2. Deferred Ordering. It is also sometimes the case that the Government may not know at contract award what data it will require, or even whether it will require data at all. The Deferred Ordering clauses (FAR 52.227-16; DFARS 252.227-7027) allow the Government to order technical data and computer software generated in performance of the contract for up to three years after contract termination.

a. The deferred ordered data is subject to the rights allocation clauses otherwise in the contract.

b. The contractor is compensated only for the cost of converting the data into its prescribed form and for the costs of reproduction and delivery. The contractor is not entitled to additional consideration for the deferred ordered data itself.

XI. RIGHTS IN BID AND PROPOSAL DATA

A. Unsolicited Proposals (FAR Subpart 15.6)

1. Generally, the Government shall not use data, concepts, ideas, or other parts of an unsolicited proposal as the basis for a solicitation or negotiation with other firms, unless the offeror is notified and agrees. FAR 15.608(a).

2. The Government shall not disclose restrictively marked unsolicited proposal data. FAR 15.608(b).

a. If an offeror desires to protected information in the unsolicited proposal from disclosure, the offeror is required to mark the title page and each subsequent page with the prescribed legends. FAR 15.609.

b. If any other legend is used, the Government is required to return the unsolicited proposal with a letter indicating that it will review the proposal if it is resubmitted with the prescribed legend. FAR 15.609(c).

B. Successful Proposals

1. FAR 52.215-1(e)(1) allows offerors to restrict the Government's rights in data contained in proposals. As with unsolicited proposals, the offeror is required to mark the proposal with a restrictive legend.

2. FAR 52.227-23 allows the Government to obtain unlimited rights in technical data in successful proposals, except as specified by the offeror/awardee by specifically identifying the page(s) containing technical data excluded from this grant of unlimited rights. *See* FAR 27.407; 27.409(*l*).

3. The rules are more restrictive for DoD-solicited proposals. *See* DFARS 252.227-7016.

a. For bid and proposal information other than technical data and/or computer software to be delivered under the contract:

(1) Pre-award, the Government may copy and use the information for evaluation purposes only and may not disclose it to others unless such person is authorized by the contracting officer or the agency head to receive the information.

(2) Post-award, the Government may use and disclose the information within the Government.

(3) There is no prescribed legend to effect these restrictions. Many contractors, however, will borrow the restrictive legend from the FAR as a best practice.

b. For technical data and/or computer software deliverables, the Government's rights are dictated by the rights allocation clause(s) contained in the contract (*e.g.*, DFARS 252.277-7013, -7014, and/or -7015).

XII. RIGHTS IN PATENTS UNDER GOVERNMENT CONTRACTS

A. The FAR and DFARS distinguish between the Government's rights in a contractor's technical data and computer software, on the one hand, and the Government's rights in a contractor's patents, on the other hand. *See* FAR 52.227-14(i); DFARS 252.227-7013(i); DFARS 252.227-7014(i).

B. The Bayh-Dole Act, codified as amended at 35 U.S.C. §§ 200-212, is the primary source of rights and duties in this area.

1. Prior to World War II, industry, not the Federal Government, was the leader in research and development (R&D) funding. After World War II,

the Government's desire to maintain a standing military, explore space, and develop nuclear energy caused it to become the largest sponsor of R&D.

2. There was initially a great deal of disparity among the federal agencies concerning who took what rights in a patent. Some agencies took title to the patent, while others left ownership with the inventor and merely required a license.

3. To remedy the disparity and to attract more contractors to participate in the Government's "information industrial complex," Congress passed the Bayh-Dole Act in 1980, which gave the patent title to the inventor and required the agency to take certain rights in the invention. 35 U.S.C. § 200.

4. Only small and non-profit firms fall under the Bayh-Dole Act. 35 U.S.C. § 201(c). Congress feared that granting title in inventions to large firms would enable them to monopolize their respective technological fields.

5. A 1983 Presidential Memorandum extended coverage of the Act to large, for-profit firms as well. Presidential Memorandum on Governmental Patent Policy to the Heads of Executive Departments and Agencies, Feb. 18, 1983 (reprinted in 1983 Public Papers 248). This memo may be waived under certain circumstances.

C. The requirements of the Bayh-Dole Act apply to "subject inventions," which are [1] inventions; [2] of the contractor; [3] conceived or first actually reduced to practice; [4] in the performance of work under a funding agreement. 35 U.S.C. § 201(e).

1. An "invention" is something that is or may be patentable. 35 U.S.C. § 201(d).

2. An invention is "of the contractor" if the contractor (or a contractor employee) is an inventor.

3. The terms "conception" and "actual reduction to practice" have their ordinary patent law meanings.

   a. "Conception" is "the formation in the mind of the inventor of a definite and permanent idea of the complete and operative invention as it is thereafter to be applied in practice[.]" *Townsend v. Smith*, 36 F.2d 292, 295 (C.C.P.A. 1930).

   b. "Actual reduction to practice" occurs when the invention is embodied in a physical form used to demonstrate its workability.

(1) The invention is embodied when the physical form has all of the claimed elements.

(2) The invention is workable when it has been tested to the extent necessary to show that the invention will perform as intended beyond a probability of failure. Perfection is not required.

4. Work is "in the performance of work under a funding agreement" if it occurs during and related to the work specified by the funding agreement.

D. Procedural Requirements. The Bayh-Dole Act includes certain procedural requirements relative to subject inventions. These requirements are implemented in patent rights clauses. *See, e.g.*, 37 C.F.R. Part 401; FAR 52.227-11; FAR 52.227-13; DFARS 252.227-7038. Thus, a contractor's specific obligations vis-à-vis a subject invention will be spelled out in the contract itself. Generally, however, the obligations include:

1. Disclosure of Subject Inventions. The contractor must timely disclose subject inventions to the Government. 35 U.S.C. § 202(c)(1); FAR 52.227-11(c); FAR 52.227-13(c)(1)(iii); FAR 52.227-13(e). The purpose of the disclosure requirement is to protect the Government's interests in potentially patentable inventions under both domestic and international laws.

a. The statute requires disclosure within a reasonable time.

b. The standard patent rights clause (*i.e.*, FAR 52.227-11) provides that disclosure must be made within two months after the inventor discloses the invention to the contractor or six months after the contractor otherwise becomes aware of the invention.

c. The disclosure must have sufficient technical detail to convey a clear understanding of the subject invention. It must also provide information as to any potentially novelty-defeating acts (*e.g.*, publications, on-sale activities, and the like).

d. No particular form of disclosure is specified in either the standard patent clause or the FAR patent rights clauses. *See Campbell Plastics Eng'g & Mfg., Inc. v. Brownlee*, 389 F.3d 1243 (Fed. Cir. 2004). Within the Department of Defense, disclosure may be made on a DD Form 882, Report of Inventions and Subcontracts. *See* DFARS 227.304-1.

2. Election of Title. Once the contractor has disclosed the subject invention to the Government, the contractor must decide whether it wishes to retain title to the invention. FAR 27.302(b)(1). By statute, this election must be done within two years of disclosure of the subject invention. 35 U.S.C.

§ 202(c)(2); FAR 52.227-11(c)(2). This deadline can be shortened if there has been a potentially novelty-defeating event.

3. Filing of Patent Application. If the contractor elects to retain title, it is required to timely file a United States patent application (*e.g.*, within one year of any novelty defeating event). 35 U.S.C. § 202(c)(3); FAR 52.227-11(c)(3). Optionally, the contractor can file foreign and international counterpart applications.

4. Additional procedural requirements will be spelled out in the contract's patent rights clause.

5. The contractor can request, and the contracting officer can grant, extensions of time to the deadlines for disclosure of subject inventions, election of title, and filing of patent applications. Under a first-to-file system, however, such extensions may jeopardize the Government's rights. *See* Scott A. Felder and Rachel K. Hunnicutt, *Where AIA Meets Bayh-Dole Act: Beware the Ticking Clock*, Law360 (Oct. 29, 2013), *available at* http://www.wileyrein.com/publications.cfm?sp=articles&id=9198.

E. Allocation of Rights.

1. If the contractor elects title, the Government is granted a "nonexclusive, nontransferable, irrevocable, paid-up license" to practice, or have practiced for or on behalf of the United States, the subject invention throughout the world. 35 U.S.C. § 202(c)(4); FAR 27.302(c); FAR 52.227-11(d)(2); FAR 52.227-13(c)(1). Note that this license is to the *invention*, not to a *patent on the invention*.

2. If the contractor does not elect title, or fails to meet a deadline (*e.g.*, fails to timely file a patent application), the Government can take title to the invention. FAR 52.227-11(d)(1).

3. The Government can also take title in countries where the contractor decides not to file a patent application and in countries where the contractor abandons its efforts to secure patent protection. FAR 52.227-11(d)(1).

4. When the Government takes title, the contractor will generally be granted a revocable, nonexclusive, paid-up, worldwide license to the invention. FAR 27.302(i).

F. March-in rights. March-in rights are reservations by the funding agency in elected subject inventions that permit the agency to require the contractor to grant licenses to responsible applicants on reasonable terms. 35 U.S.C. § 203; FAR 27.302(f); FAR 52.227-11(h). The contractor is given procedural due process, including the right to be heard and an opportunity for oral arguments. There is

also a mandate that only the head of the agency can exercise these march-in rights. 35 U.S.C. § 203(2); FAR 27.302(f); FAR 27.304-1(g). To date, no agency has ever exercised its march-in rights.

G. Domestic Licensing. Contractors are prohibited from exclusively licensing their patented invention to US firms unwilling to "substantially manufacture" their product within the U.S. 35 U.S.C. § 204; FAR 27.302(g); FAR 52.227-11(g); FAR 52.227-13(h). There are exceptions if the contractor can demonstrate it was unable to find a domestic licensee or that domestic manufacturing is not commercially feasible. 35 U.S.C. § 204; FAR 27.302(g); FAR 52.227-11(g); FAR 52.227-13(h). For example, if a contractor develops a new bulletproof material that it patents, it is generally required to license that invention only to firms willing to manufacture bulletproof vests within the US.

H. Applicability to Subcontractors

1. The Bayh-Dole Act prevents prime contractors from obtaining rights in subcontractor inventions within the subcontract itself. 35 U.S.C. § 202(a); FAR 27.304-3; FAR 52.227-11(k); FAR 52.227-13(i).

2. The contractor may obtain rights in subcontractor inventions but must do so outside of the subcontract and must pay some additional compensation to the subcontractor. FAR 27.304-4; FAR 52.227-11(k); FAR 52.227-13(i).

3. These same protections are also given to lower tier subcontractors. FAR 52.227-11(k); DFARS 252.227-7038.

4. Put simply, the Bayh-Dole Act establishes the allocation of rights in an invention between the *Government* and a contractor at any tier, and does not allocate rights in an invention as between contractors at various tiers.

I. Use of FAR 52.227-13. The basic patent rights clause is FAR 52.227-11, which allows the contractor to elect to retain title. In certain circumstances, however, FAR 52.227-13 is used instead. The clause at FAR 52.227-13 requires the contractor to assign title to the Government, subject to a license back.

1. The contractor's minimum license is a revocable, nonexclusive, paid-up license in each patent application filed in any country on a subject invention and any resulting patent in which the Government retains title, unless the contractor fails to make the required Bayh-Dole disclosure. FAR 52.227-13(d).

2. The contractor can request, and the Government can grant, greater rights to the contractor, up to and including allowing the contractor to retain ownership. FAR 52.227-13(b)(2).

3. If the contractor is allowed to retain ownership after a greater rights determination, the Government receives a nonexclusive, nontransferable, irrevocable, paid-up, worldwide license to practice the invention or have the invention practiced on its behalf. FAR 52.227-13(c). The Government also receives march-in rights. *Id.*

4. Reasons to Use FAR 52.227-13.

   a. The contractor is not in the US;

   b. The contractor has no place of business in the US;

   c. The contractor is subject to the control of a foreign government;

   d. The invention relates to foreign intelligence or counterintelligence activities;

   e. The invention relates to a Department of Energy Government Owned-Contractor Operated facility for nuclear propulsion or weapons programs; or

   f. Other exceptional circumstances.

XIII. GOVERNMENT USE OF PATENTS

A. Contractor Background Patents

1. "Background patents" are patents that the contractor brings to the table. They are not expressly addressed by the FAR or DFARS. Nonetheless, many contractors will choose to place the Government on notice of their background IP, and the rights (if any) the Government will receive therein. Often, contractors use a format similar to that found in DFARS 252.227-7017 for technical data and computer software.

2. The ownership of background patents may provide a contractor a competitive advantage in the procurement process. Ownership of a patent, however, is not, in and of itself, sufficient to justify a sole-source award to the patent owner.

B. Third-Party Patents.

1. Contractors may need to utilize inventions made by others when working on Government contracts. Generally, the Government will not refuse to award a contract on the grounds that the prospective contractor may infringe a patent. FAR 27.102(b).

2. In the ideal case, the parties will identify, up front, any patents that will need to be practiced in performing the contract. This allows offerors to

seek a license and include the same in their proposal. Certain requirements are imposed upon patent royalties that the contractor may need to pay as a result. *See* DFARS 252.227-6.

3. Most cases, however, are not ideal. Instead, the parties discover during contract performance that they are practicing a third-party's patent. To address this situation, many Government contracts include three types of clauses: Authorization and Consent (*e.g.*, FAR 52.227-1); Notice and Assistance (*e.g.*, FAR 52.227-2); and Indemnification (*e.g.*, FAR 52.227-3 to -5).

a. Authorization and consent.

(1) Authorization and consent may be express (*e.g.*, by contract clause) or implied (*e.g.*, by the Government's conduct). It may be broad (*e.g.*, FAR 52.227-1 Alt. I) or narrow (*e.g.*, FAR 52.227-1). It may also be provided up front (*e.g.*, in the contract) or after the fact (*e.g.*, by the Government inserting itself into litigation between the patentee and the contractor).

(2) A contractor's use or manufacture of a patented invention for the Government and with the authorization of the Government is deemed use or manufacture for the United States. 28 U.S.C. § 1498(a).

b. Indemnification.

(1) Just because the Government accepts liability for its contractors' acts of infringement in the first instance does not mean that the contractor can escape liability for patent infringement entirely. By including an indemnification clause in the contract, the Government can shift the burden of infringement back to the contractor

(2) Indemnification can be blanket (*e.g.*, FAR 52.227-3), or by specific inclusion and/or exclusion of particular patents (*e.g.*, FAR 52.227-3, Alt. I and Alt. II). Indemnification is, however, always a contractual question.

C. Remedies for Aggrieved Patentees.

1. Judicial Remedy

a. The sole remedy for use of manufacture of a patented invention by or for the United States is an action at the Court of Federal Claims for the patentee's reasonable and entire compensation. 28 U.S.C. § 1498(a).

b. "Reasonable and entire compensation" is most typically measured as a reasonable royalty for the use or manufacture, though other measures, such as lost profits and cost savings to the Government, have been used in limited circumstances. It also includes attorneys' fees and costs under many circumstances.

c. A patent owner cannot enjoin use of a patented invention by a Government contractor operating with the authorization and consent of the Government. 28 U.S.C. § 1498; 10 U.S.C. § 2386. The patent owner is required to accept a reasonable amount of compensation for the infringement instead.

2. Administrative Remedy (DoD Only)

a. 10 U.S.C. § 2386, which permits DoD appropriations to be used to procure intellectual property licenses, allows DoD to settle patent infringement claims administratively.

b. The administrative claim procedures are set forth at DFARS Subpart 227.70.

c. An advantage of the administrative claims process is that it potentially allows the parties to avoid the time and expense of litigation.

d. Disadvantages of the administrative claims process include "piecemeal" settlements (*e.g.*, settlement on an agency-by-agency basis instead of a Government-wide settlement brokered by the Department of Justice) and the use of agency appropriations (vs. the Judgment Fund for Department of Justice settlements).